5 Q Limited prepares its financial statements to 31 March each year.
The company's retained earnings at 1 April 2022 were $16 250.

During the year ended 31 March 2023, the company made a profit of $43 500 (after charging all expenses and interest). The total dividends of $39 000 for the year were paid by 31 March 2023.

The following balances were extracted from the company's ledger accounts after the income statement had been prepared.

	$	
Fittings and equipment at cost	150 000	
Provision for depreciation of fittings and equipment	40 650	
Motor vehicles at cost	72 000	
Provision for depreciation of motor vehicles	31 125	
Inventory	51 790	
Balance at bank	1 076	debit
Trade receivables	19 700	
Provision for doubtful debts	591	
Trade payables	31 450	
5% Debentures (repayable 2029)	40 000	
Bank loan (repayable 2027)	10 000	
Ordinary share capital	120 000	

REQUIRED

(a) Calculate the retained earnings of Q Limited at 31 March 2023.

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.... [3]

(b) Prepare the statement of financial position for Q Limited at 31 March 2023.

Q Limited
Statement of Financial Position at 31 March 2023

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[8]

(c) Calculate the liquid (acid test) ratio to two decimal places.

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The directors (who are also the shareholders) would like to expand the company and wish to borrow $50 000 to fund the expansion. They are considering whether to issue further ordinary shares or to request another long-term bank loan.

REQUIRED

(d) (i) Suggest **two** reasons why although the company has made a profit, there is little cash available in the bank account to fund the expansion.

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[2]

(ii) Advise the directors whether they should fund the expansion by issuing ordinary shares or requesting a bank loan. Justify your answer.

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[Total: 20]

Question	Answer	Marks
5(a)	Calculation of retained earnings | | $ | | Retained earnings at 1 April 2022 — 16 250 **}** Profit for the year — 43 500 **}(1)** — 59 750 Less Dividend — (39 000) **(1)** Retained earnings at 31 March 2023 — 20 750 **(1)OF**	**3**

Question	Answer	Marks
5(b)	(see statement below)	8

Q Limited
Statement of Financial Position at 31 March 2023

	$	$	$	
Assets				
Non-current Assets	Cost	Provision For Depreciation	Net Book Value	
Fittings and equipment	150 000	40 650	109 350	**} (1) for**
Motor vehicles	72 000	31 125	40 875	**} both lines**
	222 000	71 775	150 225	**(1)**
Current Assets				
Inventory			51 790	
Trade receivables		19 700		
Less Provision for doubtful debts		591	19 109	**(1)**
Bank			1 076	
			71 975	**(1)OF**
Total assets			222 200	
Equity and Liabilities				
Equity				
Ordinary share capital			120 000	**(1)**
Retained earnings			20 750	**(1)OF**
			140 750	
Non-current Liabilities				
5% Debentures		40 000 **}**		
Bank Loan		10 000 **}(1)**	50 000	
Current Liabilities				
Trade payables			31 450	**(1)**
Total Equity and Liabilities			222 200	

Question	Answer	Marks
5(c)	(19 109 **OF** + 1 076) : 31 450 **OF** = 20 185 **OF** : 31 450 **OF** **(1) whole formula** = 0.64 : 1 **(1)OF**	**2**
5(d)(i)	Dividends paid **(1)** Increase in level of inventory **(1)** Purchase of non-current assets **(1)** Repayment of non-current liabilities **(1)** Payment of trade payables/payment of a bank overdraft **(1)** Delay in receiving payment from trade receivables **(1)** **Accept other valid points** **Max (2)**	**2**

Question	Answer	Marks
5(d)(ii)	**Issue ordinary shares** No interest payable **(1)** No repayment required **(1)** No need to provide security **(1)** The directors can decide on the rate of dividend **(1)** May dilute control/ownership **(1)** Shareholders will expect a dividend **(1)** May not be able to raise amount required **(1)** Already have long-term liabilities to repay **(1)** **Accept other valid points** **Max (3)** **Obtain bank loan** Repayment is required **(1)** Once loan is repaid no further liability to bank **(1)** Funds would need to be available when repayment is due **(1)** Security will be required **(1)** Interest will be charged **(1)** Bank may not be willing to lend as already have substantial long-term liabilities **(1)** Funds may be obtained more quickly than a share issue **(1)** If company is wound up loan must be repaid before shareholders **(1)** **Accept other valid points** **Max (3)** **Max (4)** **(1) for recommendation**	**5**